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**FISCAL IMPACT STATEMENT**

**LS 7172**

**BILL NUMBER:** HB 1167

**NOTE PREPARED:** Feb 12, 2007

**BILL AMENDED:**

**SUBJECT:** Child and Dependent Care Tax Credit.

**FIRST AUTHOR:** Rep. Micon

**FIRST SPONSOR:**

**BILL STATUS:** 2<sup>nd</sup> Reading - 1<sup>st</sup> House

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State

**Summary of Legislation:** The bill provides a refundable an Adjusted Gross Income Tax credit to individuals for certain household, child care, or dependent care expenses associated with an individual's gainful employment. The bill provides that the amount of the credit is 50% of the Federal Child and Dependent Care Credit. The bill also provides that an individual whose federal adjusted gross income exceeds \$45,000 is not eligible for the credit.

**Effective Date:** January 1, 2008.

**Explanation of State Expenditures:** The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the new tax credit. The DOR's current level of resources should be sufficient to implement the new tax credit.

**Explanation of State Revenues:** The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who claim the federal Child and Dependent Care Credit and whose federal AGI is at or below \$45,000. The revenue loss due to this bill could potentially total about \$8.4 M in FY 2009, and could potentially decline by about 2.8% per year as annual income growth pushes taxpayers above the \$45,000 income eligibility limit. In contrast, if the eligible population and credits claimed remain static in the coming years, the revenue loss could potentially total about \$9.4 M in FY 2009 and each year thereafter.

***Background:*** The bill creates a refundable AGI Tax credit for individual taxpayers who are eligible for and claim the federal Child and Dependent Care Credit. Under the bill, the AGI Tax credit is equal to 50% of the federal credit claimed in the taxable year, and is limited to taxpayers with federal AGI of \$45,000 or less. (Note: An explanation of the federal credit is presented below.) In 2004, almost 38,500 Indiana residents with

federal AGI of \$45,000 or less claimed about \$18.7 M in credits for qualified child and dependent care expenses. However, from 2003 to 2004, this group declined by roughly 2.8% and credits claimed by this group declined by about 4.4%. Because changes to federal law altered the eligible expense limits and credit percentages under the Child and Dependent Care Credit beginning in 2003, prior years were not utilized to estimate the growth rates applicable to the aggregate credits claimed or the number of taxpayers claiming credits. Since the credit is effective beginning in tax year 2008, the fiscal impact would begin in FY 2009. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

*Federal Child and Dependent Care Credit:* The federal credit applies to qualifying child or dependent care expenses paid in order for the taxpayer to be gainfully employed. To be eligible for the credit, a taxpayer must incur employment-related expenses in providing care for one the following qualified individuals:

- (1) a dependent of the taxpayer who has not attained the age of 13.
- (2) a dependent of the taxpayer who is physically or mentally incapable of caring for himself or herself and resides with the taxpayer for more than one-half of the year.
- (3) the taxpayer's spouse, if the spouse is physically or mentally incapable of caring for himself or herself and resides with the taxpayer for more than one-half of the year.

Qualifying expenses include expenses paid for household services and for the care of a qualifying individual. Services outside the home qualify if they involve the care of a qualified child or a disabled spouse or dependent who regularly spends at least eight hours a day in the taxpayer's home. The maximum amount of qualified child and dependent care expenses to which the credit may be applied is \$3,000 for one qualifying individual and \$6,000 for two or more qualifying individuals. The credit amount is equal to a percentage of the qualified child and dependent care expenses. The applicable percentage ranges from 20% to 35% depending on the taxpayer's federal AGI. If the taxpayer's federal AGI is \$15,000 or less, the applicable percentage is 35%. The credit is reduced by one percentage point per \$2,000 of AGI in excess of \$15,000. The applicable percentage is fixed at 20% for taxpayers with federal AGI exceeding \$43,000. Thus, the maximum federal credit amount is \$1,050 for expenses relating to one qualifying dependent and \$2,100 for expenses relating to two or more qualifying dependents. This means the maximum AGI Tax credit under the bill would range from \$525 to \$1,050.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** OFMA Federal Tax Database, 1996-2004; Internal Revenue Service, Statistics on Income, *Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Years 1997-2004*.

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